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**Correspondence Memorandum**

**Date:** April 16, 2019

**To:** Deferred Compensation Board Investment Committee

**From:** Shelly Schueller, Director  
 Wisconsin Deferred Compensation Program

**Subject:** BlackRock Investment Options: Proposed Agreement Revisions and Fund/Fees Choices

**The Department of Employee Trust Funds (ETF) suggests the Investment Committee recommend the Board amend the investment option agreement held by BlackRock to reflect updated language and lower investment management fees.**

Table 1 below shows the BlackRock collective investment trust (CIT) index funds currently part of the Wisconsin Deferred Compensation Program (WDC) investment lineup, along with the investment fee type and current investment management fees.

<b>Table 1: WDC BlackRock Investment Options</b>					
	<b>Date added to WDC</b>	<b>Participants as of 12/31/18</b>	<b>Assets as of 12/31/18</b>	<b>Fee Type (Gross or Net)</b>	<b>Current Inv. Mgmt Fee (bps)</b>
EAFE Equity Index Fund "T"	2/1/2001	19,504	\$153,093,007	Net	6.0
MidCap Equity Index Fund "F"	2/1/2001	21,246	\$181,217,180	Gross	4.0
Russell 2000 Index Fund "T"	2/1/2001	13,924	\$68,346,091	Net	5.0
US Debt Index Fund "W"	2/1/2001	17,494	\$183,089,745	Net	4.0

These index options were originally offered through Barclay's and were added to the WDC in February 2001. They were intended to be index equivalents to actively managed funds in the core investment lineup. Barclay's was purchased by BlackRock in 2009, but no updates have been made to the Board's agreement to reflect this ownership change. The agreement should be updated to reflect the change from Barclay's to BlackRock, fund

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services

*Matt Stohr* Electronically Signed 4/19/19

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names and fees, and other necessary revisions related to securities lending, administrative fees and billing.

BlackRock has recently indicated there are lower investment management fee options available for the WDC's BlackRock CIT index funds. BlackRock offers two types of fees on its CIT funds: gross of fees or net of fees. A gross of fee fund does not accrue for the investment management within the fund's daily Net Asset Value (NAV). Instead, BlackRock sends invoices reflecting the fund's annual investment management fee rate. In the WDC, this is how the MidCap fund is handled. Usually the plan record keeper re-unitizes the fund to accrue for the annual investment management fee rate as well as any other fees that the plan pays for out of the investment funds. This is how the WDC currently pays BlackRock MidCap fund fees. In contrast, a net of fee fund accrues for the annual investment management fee rate within the fund, and therefore, there is no need for client invoicing or re-unitization of the fund. This is how the WDC currently pays BlackRock for the EAFE, Russell 2000 and US Debt Index funds.

The table below outlines the choices available to the Board regarding two current BlackRock fund options. The Board may choose to pay gross of fees or net of fees for both the EAFE and MidCap funds. As stated previously, fund type determines the investment management fee that BlackRock would charge for each option. Both fund fee types listed in Table 2 below would provide lower investment management fees than the identical fund options currently in the WDC (see Table 1).

<b>Table 2: Fund Options for Selected BlackRock Funds</b>						
	<b>Fund</b>	<b>Fee Type</b>	<b>Inv. Mgmt Fee (bps)</b>	<b>Fund</b>	<b>Fee Type</b>	<b>Inv. Mgmt Fee (bps)</b>
EAFE Equity Index Fund	"F"	Gross	4.0	"M"	Net	5.0
MidCap Equity Index Fund	"F"	Gross	2.0	"M"	Net	2.5

In addition to choices related to the EAFE and MidCap funds, BlackRock is offering the Board the choice to move to lower fee versions of both the Russell 2000 and US Debt Index Funds:

- The Russell 2000 Index Fund "M" nets fees and has an investment management fee of 2.5 basis points (bps). The version currently in the WDC lineup, "T" has an investment management fee of 5 bps.
- The US Debt Index Fund "M" also nets fees and has an investment management fee of 3.0 bps. The current edition, "W", has an investment management fee of 4 bps.

ETF understands the Board strives to offer high value, low cost investment options to WDC participants. By moving to the lowest cost available versions of the BlackRock funds discussed in this memo, the Board would enable more of participants' contributions to remain in the funds rather than being used to pay investment management fees.

Consequently, ETF suggests the Investment Committee recommend the Board amend the BlackRock agreement. These amendments would:

- 1) Revise the contract to reflect language updates such as changing Barclay's to BlackRock, update fund names and fees, and revise necessary language regarding securities lending, administrative fees, and billing;
- 2) Move the EAFE Equity Index Fund "T" to EAFE Equity Index Fund "F";
- 3) Update the Midcap Equity Index Fund "F" to reflect the lower investment management fee available;
- 4) Move the Russell 2000 Index Fund "T" to Russell 2000 Index Fund "M"; and
- 5) Move the US Debt Index Fund "W" to US Debt Index Fund "M".

If the Investment Committee agrees with this recommendation, it will be included on the agenda for the next Board meeting.

Staff will be at the Investment Committee meeting to answer any questions.